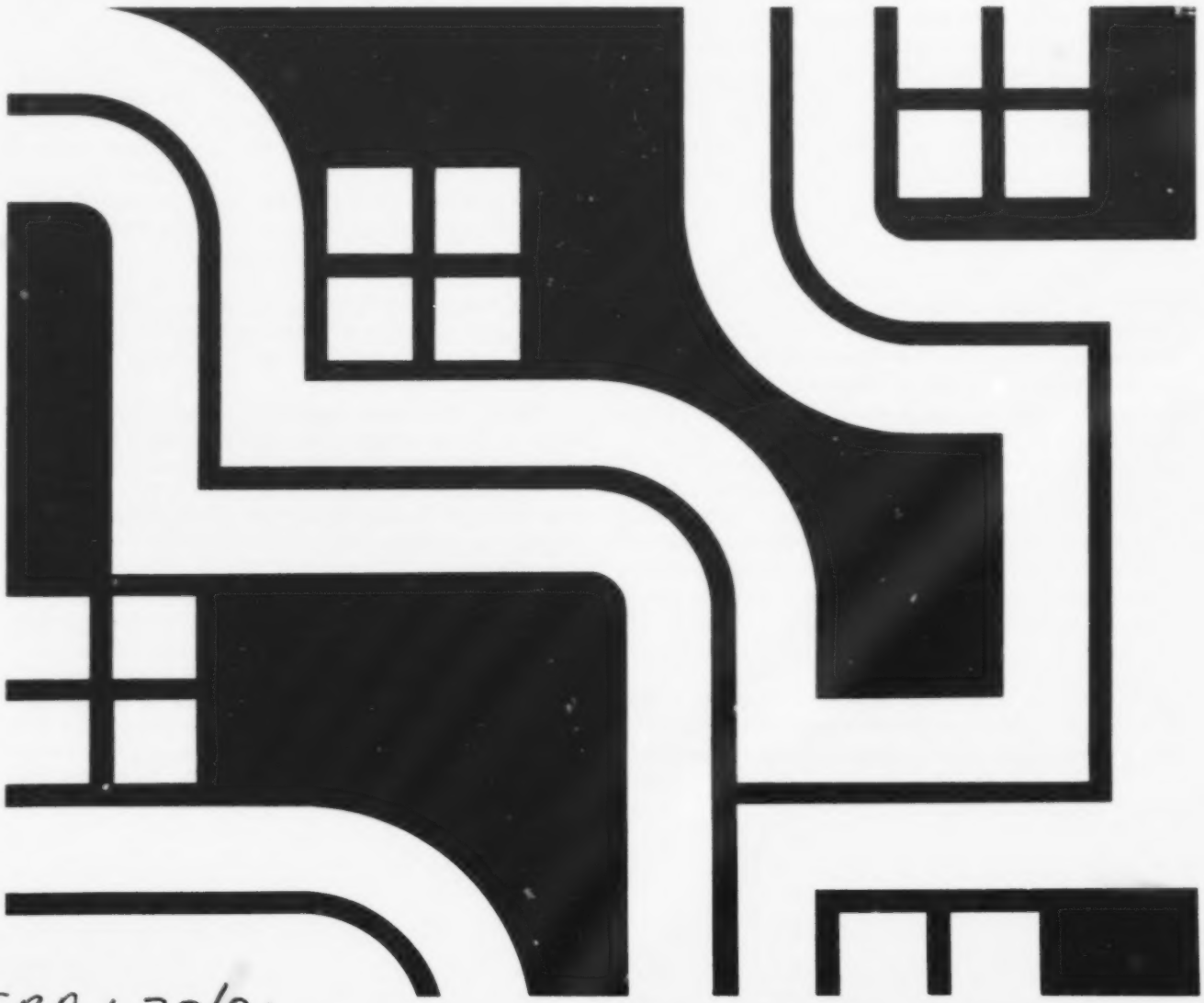
MP 18

U.S. Small Business Administration
Office of Business Development

Business Development Publication
MP 18
Donation: $1.00

SBA

Buying for Retail Stores



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Murray Krieger, **the author, has spent his entire business career in retailing, working for such stores as Bloomingdales, Gimbels, Russeks, and several buying offices. He is Professor Emeritus at Bronx Community College and has authored twelve books on merchandising and retailing. Professor Krieger is also a Retail Consultant and Merchandise Counselor to the Retail Council of Canada.**

Introduction

Beginning with the turn of the century and continuing for many years, small retailers and buyers for retail stores concentrated all of their buying efforts on the selection of merchandise items they thought their customers would like and would purchase. These buyers were product-oriented. It was called **subjective retailing** because the buyer based the buying decision on a personal view of the likes and dislikes of customers.

Within recent years the consumer movement (consumerism) has forced a change in the retailer's buying efforts from a subjective attitude to that of an objective one. The retailer must now measure the likes and dislikes of the customers before a buying decision can be made. The buyer must be consumer-oriented. Retailing has entered into the new era of **the marketing of merchandise.**

The Marketing Approach

It is necessary to obtain the answers, through research and study to the where, who, what, when and why of the consumer's buying habits and choices. The "where" refers to the trading area from which the retailer attracts its customers. The "who" refers to the demographic descriptions of these customers which provide a profile of the potential customers. The "what" refers to the types of merchandise these potential customers want to buy and, therefore, want the retailer to stock. The "when" refers to the part of the year when the customers make their purchases. The "why" refers to the psychographics of the customers which reflect their varied life-styles and the projection of these life-styles into purchasing habits.

As a result of this consumerism, the small retailer and the buyer for the larger store has had to learn the significance of a new vocabulary to successfully effect this *marketing of the merchandise* approach. The new vocabulary includes such phrases as: **target group,** an understanding of the wants and needs of the consumers the retailer has selected to serve; **marketing positioning**, the merchandising policies the retailer has established upon which to develop a reputation as a price, value, quality, assortment and fashion leader; **market penetration,** the extent to which the retailer has succeeded in interpreting and satisfying the merchandise wants and needs of the target group; **the new tools,** the new approach of marketing the merchandise requires a knowledge and understanding of the tools necessary to effectively buy for retail stores; and, **the merchandise plan,** (see below) which is a timetable of merchandising objectives to be achieved within a stated time frame to ensure that your planned market positioning and market penetration are realized.

The Merchandise Plan

The plan is applicable to all forms of retailing at all sales levels. It is most often a six-month merchandise plan but there can be time frame variations depending upon the merchandise.

The first six-month plan includes February-March-April (spring) and May-June-July (summer). This plan is prepared and finalized in the previous August to permit early buying of imports and other merchandise. The second six-month plan includes August-September-October (fall) and November-December-January (winter). This plan is prepared and finalized in the previous February for the same reasons stated above.

The important items to be considered monthly when developing your six-month Merchandise Plan are:

Net Sales—This figure represents a realistic dollar estimate of your monthly merchandise sales. These sales estimates are based on past experiences and on future considerations including: business conditions, competition, inflation, promotional plans, merchandising opportunities and merchandise availability.

Stock—In order to achieve your estimated (planned) sales figure you must provide sufficient stock to permit a satisfactory selection for your customers. This stock figure can be determined by calculating your inventory turnover rate or your sales-stock ratio or by estimating the maximum quantity for each item or the stock requirements based on expected weekly sales.

Reductions—Reductions refer to the lowering of retail value of your inventory and is caused by planned markdowns, shrinkage (stock shortage) and discounts to employees or other special groups. Since these are the only three things that can cause the retail value of the inventory at the end of a period to have a lower valuation than it had at the beginning of the period they are to be included in the plan.

Purchases—This figure represents the dollar value of merchandise the buyer must purchase to replenish the stock likely to be sold to your retail customers. It is calculated by subtracting the dollar value of the stock-on-hand at the beginning of the month from the total dollar value of the planned net sales, shrinkage and reductions for the month. The result is the planned purchases for the month.

Open-To-Buy—To arrive at the open-to-buy figure for the month, it is necessary to subtract (from the above planned purchases figure) the dollar value of the commitments already placed for delivery during the same month. Since each month is an entity by itself, it is not possible to carry any unspent open-to-buy commitments over to the next month. Knowledgeable buyers generally commit about 50 percent of the planned purchase figure in order to allow funds for reorders, fill-ins, and to take advantage of unexpected marketing opportunities.

In addition to the above items and depending upon the retail operation, the following elements may also be included in your six-month plan: turnover, markon, payroll, advertising, gross margin, number of transactions, and average sale. It should be noted that the six-month plan is flexible and can be adjusted at any time to meet changing business conditions.

The Stock Plan

After determining the broad categories of merchandise the store is to stock (men's clothing, stationery, costume jewelry, etc.), the retailer divides the broad categories into smaller categories called classifications (men's suits, tuxedoes, raincoats, etc.). In turn, the classifications are divided into sub-classification (single-breasted, double-breasted, etc.). A unit stock plan of the number of items to be stocked in each by price, style, color and size is then prepared. The purpose of this approach is to ensure that the stock will present an assortment of items that will satisfy the wants and needs of the broad section of targeted consumers. One element of the stock plan approach is the model stock or basic stock list. This list will contain those items that the customer expects to find in stock at all times. These are the *musts* or *never-out* items which are sometimes referred to as the bread-and-butter items.

The number of items in all stock plans is multiplied by the price line to arrive at the dollar value of the planned inventory. Adjustments in the stock plan may be necessary if the financial constraints preclude an ambitious stock assortment.

The Buying Plan

One of the important aspects of market penetration is to have the items in stock when the customers want to buy them. This implies going into the market to buy the goods early enough to ensure delivery to the store at the proper time. For example, to ensure on-time delivery of children's Easter clothes, you must place the orders and commit the resources in the previous September. So buying for a retail store requires advance planning to determine the merchandise needs for each month and then placing the commitments without procrastination. Since retailers offer for sale the new items months before the actual calendar date for the beginning of the new season, it is imperative that buying plans be formulated early enough to allow for intelligent buying without any last minute panic purchases. The main reason for this early offering for sale of new items is that the retailer regards the calendar date for the beginning of the new season as the merchandise date for the end of the old season. For example, March 21st, from a merchandising viewpoint, is the end of spring while June 21st is the end of summer and December 21st the end of winter.

The period following the calendar date for the beginning of the season is used by the retailer to sell closeouts, job lots, imperfects, irregulars, seconds, distress merchandise, off-price purchases and markdowns from regular stock.

In summary the Buying Plan should detail:

a) When the market should be visited to see, examine, and study the new offerings for the coming season;
b) When commitments should be placed; and
c) When the first delivery should be received at the store.

The Selling Plan

The Selling Plan is closely allied to the buying plan. Once the merchandise has been purchased, plans must be formulated to ensure the sale of the greatest number of units during the period of customer acceptance. The Selling Plan should detail:

a) When the items should be promoted through advertising, window and interior displays, etc.;
b) When the inventory should be peaked;
c) When reorders should no longer be placed;
d) When markdowns from regular stock should be taken; and
e) When the item should no longer be in stock.

The buyer for the retail store must determine at the time the merchandise is purchased when the item should be introduced, when it should be reordered, when in should be marked down, and when it should be removed from stock. This procedure can be compared to the tides—low and high. In merchandising terms it is referred to as the ebb and flow of merchandise. The old must go and the new must take its place.

The Unit Control Plan

To maintain an in-stock position of wanted items and to dispose of unwanted items, it is necessary to establish an adequate form of control over the merchandise on order and the merchandise in stock. For the **small retailer** there are many simple, inexpensive forms of unit control. They are:

1) Visual or eyeball control enabling the retailer to examine the inventory visually to determine if additional inventory is required;

2) Tickler control enables the retailer to physically count a small portion of the inventory each day so that each segment of the inventory is counted every so many days on a regular basis;

3) Stub control enables the retailer to retain a portion of the price ticket when the item is sold. The retailer can then use the stub to record the items that was sold; and finally, a

4) Click sheet control enables the retailer to record the item sold (at the cash register) on a sheet of paper. such information is then used for reorder purposes.

For the **large retailer** more technical and sophisticted forms of unit control are used. They include:

1) Point-of-sale terminals which relay to the computer the information of the item sold. The buyer receives information printouts at regular intervals for review and action;

2) Off-line point-of-sale terminals relay information directly to the supplier's computer who uses the information to ship additional merchandise automatically to the retailer; and

3) A manufacturer's representative visits the large retailer on a sceduled basis and takes the stock count and writes the reorder. Unwanted merchandise is removed from stock and returned to the manufacturer through the procedure of an authorized level.

A sound unit control must include control over open orders so that delivery dates are adhered to and to ensure that stores do not receive goods they did not order.

Conclusion

Finally, buying for a retail store requires the buyer to be an aware person. Aware of the changing tones, the changing consumer and the changing products. To remain **au courant** with these changes, an aware buyer: (1) reads trade journals and newspapers, consumer and business publicatons; (2) talks to customers, salespeople, and vendors; (3) sees all manufacturers, salespersons and their merchandise lines; (4) visits museums, art shows, lively arts performances and sporting events; and (5) visits off-beat fashion areas. In short, the buyer for a retail store keeps an alert ear to new consumer rumblings and a sharp eye to lookout for new merchandising horizons and selling opportunities.

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This publication was printed at the UNICOR Print Plant, U.S. Penitentiary, Lompoc, CA